Monetary Crises

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Since the 1690s, America has undergone more than 20 monetary crises. Some have led to genuine reform, others to increased government power.

The fitful fiat-money inflation of the colonial governments had its culmination in the much worse inflation engineered by the continental Congress. "Why should we consent to load our constituents with taxes," said one Member, "when we can send to the printer for a whole wagonload of money, and pay for it with but one quire's worth?"

The Americans managed to win the Revolution, despite the Congress, but the inflationary burden fell heaviest on the patriots. The Tories, Pelatia Webster reports, refused to have anything to do with the new money, and would accept only gold and silver. But many of those fighting for American freedom and independence accepted the Continental paper currency. As a result, they were wiped out when the Continental fell, because of the printing press, to one tenth of one percent of its original value. Webster, probably America's first economist, said the whole experience was summed up for him by the sight of a drunken sailor dressed in a suit made entirely of Continental money.

But the debacle of government fiat money led, not to authoritarianism as is usually the case, but to restrictions on state power and the establishment of the classical gold standard. The American gold standard was never perfect. The government and its attendant banking interests were still able to manipulate it, which led to recurrent crises, but the damage was always limited. Until the establishment of the Federal Reserve System in 1913.

The Fed's bank credit inflation of the 1920s led directly, in the Austrian business cycle, to the Great Depression, which gave Franklin D. Roosevelt the excuse to violate the Constitution and end the domestic gold standard. The international gold standard was killed by Richard Nixon on August 15, 1971, when he also imposed price and wage controls.

We've seen prices go up more than 350% since that day, with the inevitable busts. Since the depression of 1981-82, the Fed has increased the money supply by more than 100%. We saw the effects, as in the 1920s, in stock market and other booms. Since the crash of October, the media keep nervously asking if we're facing a recession. The answer is, of course, yes. That was made inevitable by the inflation of 82-87. The question is what we do with it.

The government, as in previous crises, will try to use the coming troubles as an excuse for more of the poison that caused the troubles to begin with. But the climate of ideas really has changed.

Americans are much more suspicious of politicians and their nostrums than they were in the 1930s. There are signs that today, as in the 19th century, money can again become a political issue.

Thanks to Ron Paul and others, tens of millions of Americans own gold today, and know that its value is independent of government. Many know about, and approve of, the idea of a gold standard. In the academic world, thanks to Murray N. Rothbard and others, the intellectual case for the gold standard is being made with a logical brilliance unseen since the glory days of hard money, and it is buttressed as well with Ludwig von Mises's Austrian business cycle theory, which shows the hidden damage wrought by inflation.

For those of us who believe an individual liberty and sound money, these are days of opportunity. There is chance for real reform. If we grasp it.